

***Agrifood Market Integration:
Perspectives from Developing
Countries***

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PAPER OBJECTIVES

- **Analyzing two different strategies to get integrated in the world market**
 - Mexico: substantial export-led growth, but still a net agrifood importer
 - Brazil: substantial export-led growth; net agrifood exporter
- **Reviewing the position of Brazil and Mexico regarding US farm policies, focusing on 3 agrifood commodities:**
 - Domestic Subsidies - Corn and Cotton
 - Export Competition - Cotton
 - Market Access - Orange Juice
- **Discussing developing country perspectives on agrifood market integration**

Economic Importance of Agrifood Sector (2003)

	Mexico	Brazil	U.S.
Agribusiness	US\$ 22.2 billion (3.8% of GDP)	US\$ 165 billion (33% of GDP)	US\$ 998 billion (9% of GDP)
Agriculture	US\$ 31.1 billion (5.4% of GDP)	US\$ 52 billion (10% of GDP)	US\$ 154 billion (1.4% of GDP)

1980s-1990s:

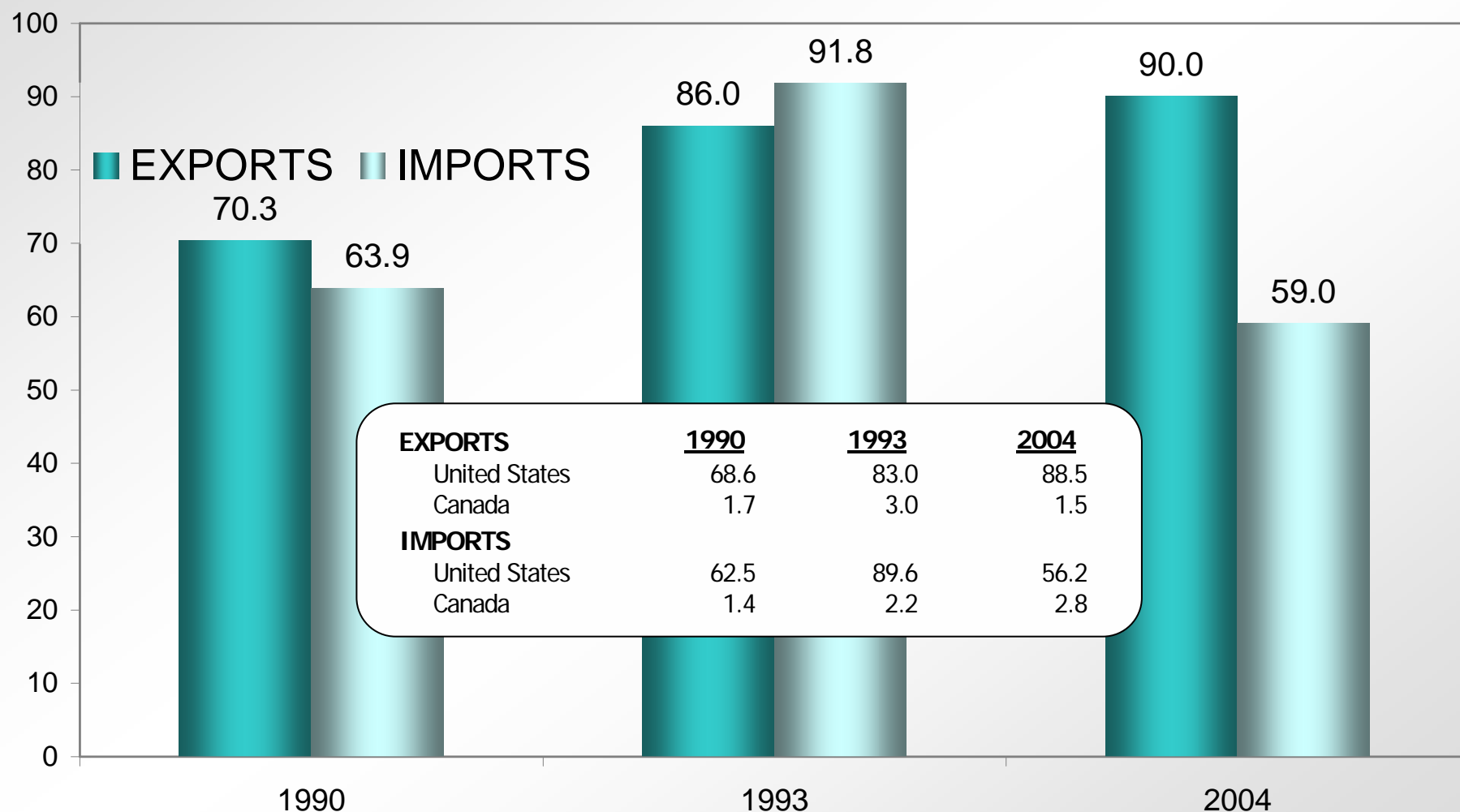
Mexico and Brazil adopted liberal, market-oriented policies that significantly affected their agrifood economies.

Perspectives from Mexico

Mexico

- **Trade liberalization:**
 - 1986: Adhesion to GATT
 - 1993: NAFTA
 - 1993 – 2005: 10 FTAs - more than 40 countries, 5 Economic Complementation Agreements, and 1 Agreement for the Strengthening of the Economic Partnership (Japan).
- **Agricultural policy liberalization:**
 - Closing or sale of state-owned enterprises
 - Elimination of guarantee prices
 - Elimination of most input subsidies
 - Ejido land reform

NAFTA SHARE OF THE MEXICAN TRADE (percentage)

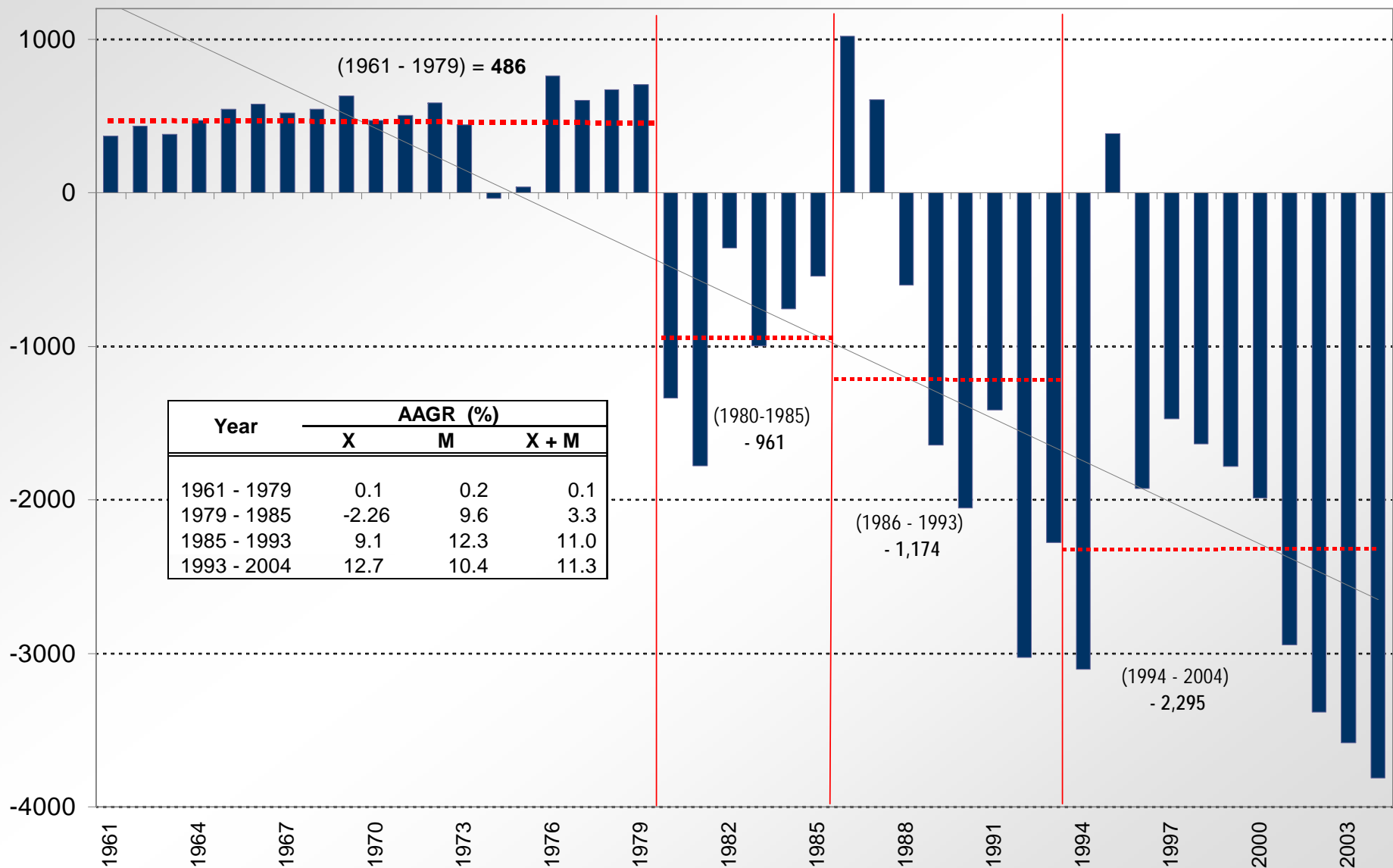


	<u>1990</u>	<u>1993</u>	<u>2004</u>
EXPORTS			
United States	68.6	83.0	88.5
Canada	1.7	3.0	1.5
IMPORTS			
United States	62.5	89.6	56.2
Canada	1.4	2.2	2.8

SOURCE: Consejo Nacional Agropecuario, with data from INEGI, Secretaría de Economía and BANCOMEXT.

MEXICO: AGRICULTURAL TRADE BALANCE 1961 - 2004

(U.S. Million dollars)

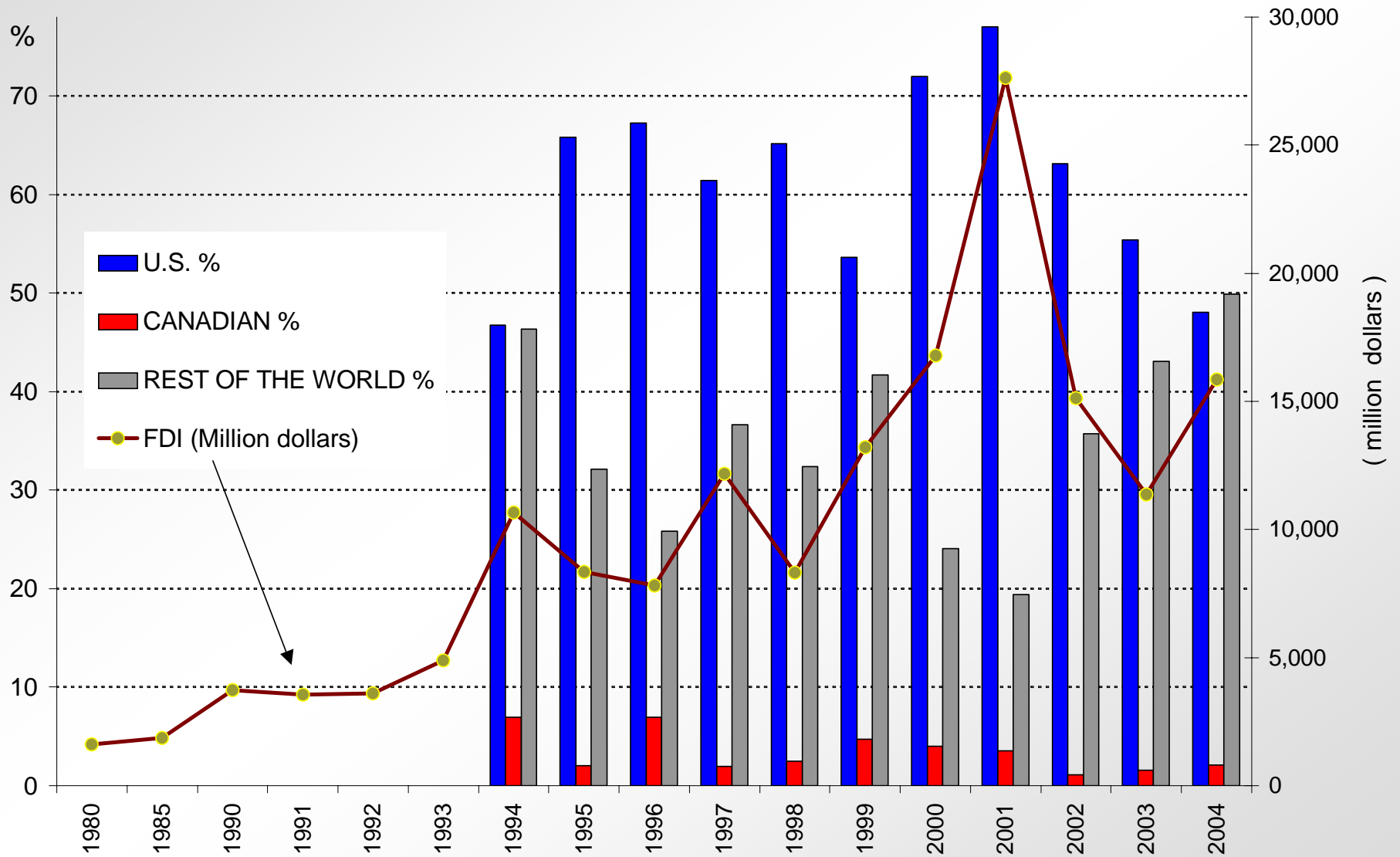


México: Agrifood trade with NAFTA
(Share of total agrifood trade, %)

Item	1990	1993	2004
EXPORTS	91.91	90.25	87.05
United States	91.48	89.30	85.67
Canada	0.43	0.95	1.38
IMPORTS	66.94	75.60	79.21
United States	65.61	70.35	70.37
Canada	1.33	5.25	8.84

Source: CNA with data from the Secretaría de Economía and BANCOMEXT.

FOREIGN DIRECT INVESTMENT IN MEXICO



Source: Secretaría de Economía. <http://www.economia.gob.mx/pics/p/p1175/04-dic.xls>, Cuadro 4. April 17, 2005.

AGRI FOOD FDI IN MEXICO

(million dollar)

Annual	Agriculture (1)	Food, Beverages & Tobacco (2)	Total	SHARE (%) (1 + 2)
1980	0.9	n.a.	1,622.6	
1985	0.4	n.a.	1,871.0	
1990	61.1	n.a.	3,722.4	
1991	44.9	n.a.	3,565.0	
1992	39.3	n.a.	3,599.6	
1993	34.5	n.a.	4,900.7	
1994	10.8	1,809.4	10,661.3	17.1
1995	11.1	651.2	8,344.9	7.9
1996	31.8	502.2	7,815.7	6.8
1997	10.0	2,952.9	12,181.7	24.3
1998	29.0	730.9	8,317.3	9.1
1999	82.5	1,041.2	13,207.4	8.5
2000	91.8	1,201.4	16,781.2	7.7
2001	49.3	973.6	27,634.7	3.7
2002	7.1	1,337.2	15,129.1	8.9
2003	(7.7)	898.0	11,372.7	7.8
2004	15.5	1,010.1	15,846.4	6.5
Acumm. 1994 - 2004	331.2	13,108.1	147,292.4	9.1
Share (%)	0.22%	8.90%	100.0%	100.0%

Source: From 1980 to 1993, Secretaría de Economía, Registro Nacional de Inversiones Extranjeras, <http://www.economia.gob.mx/?P=1164>, November 26, 2003. From 1994 to 2004, <http://www.economia.gob.mx/pics/p/p1175/04-dic.xls>, April 17, 2005.

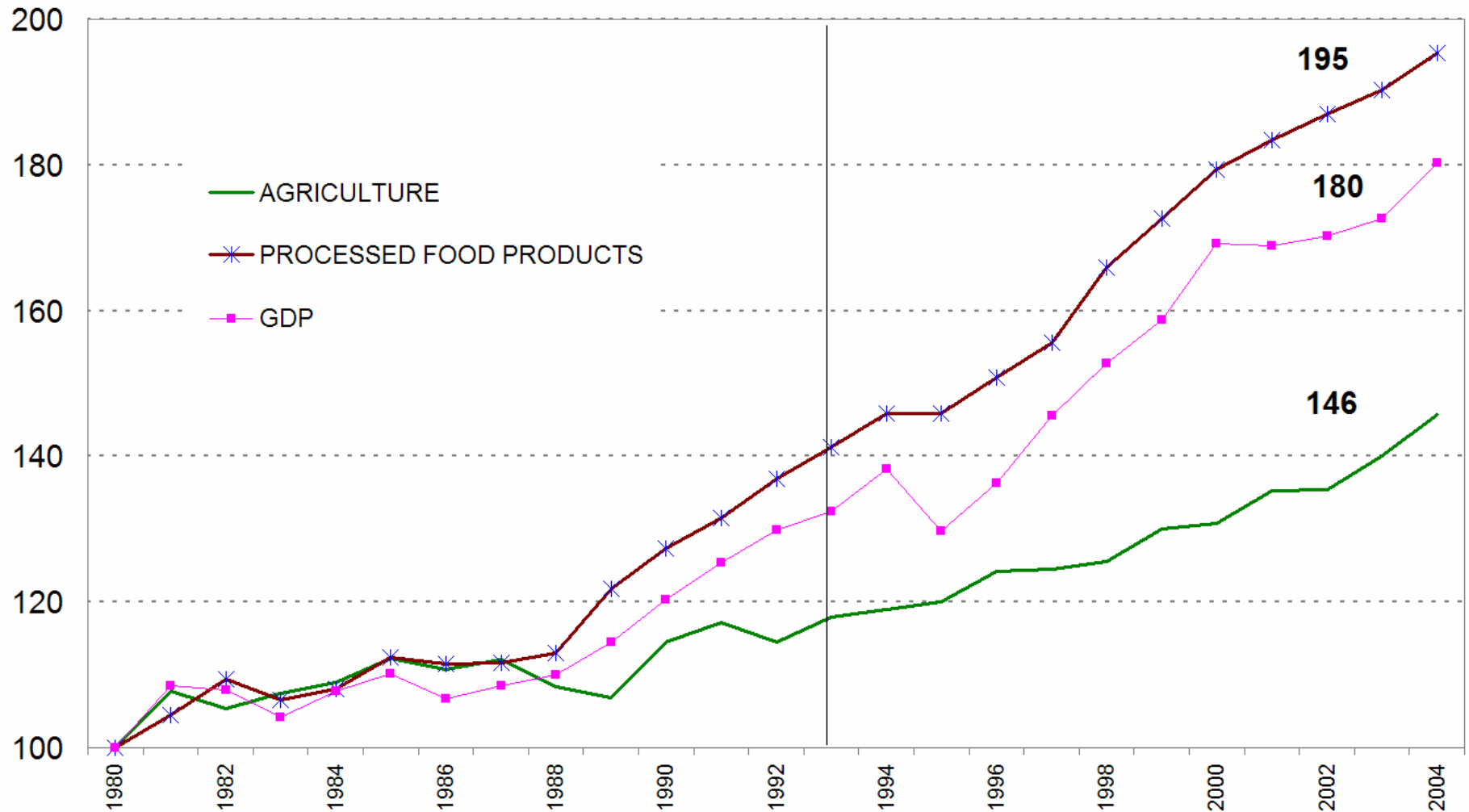
FOREIGN INVESTMENT INFLOWS FROM 1999 TO 2004 IN AGRICULTURAL, FOOD AND BEVERAGE U.S. INDUSTRIES*/

100% = 6,481.8 million dollars



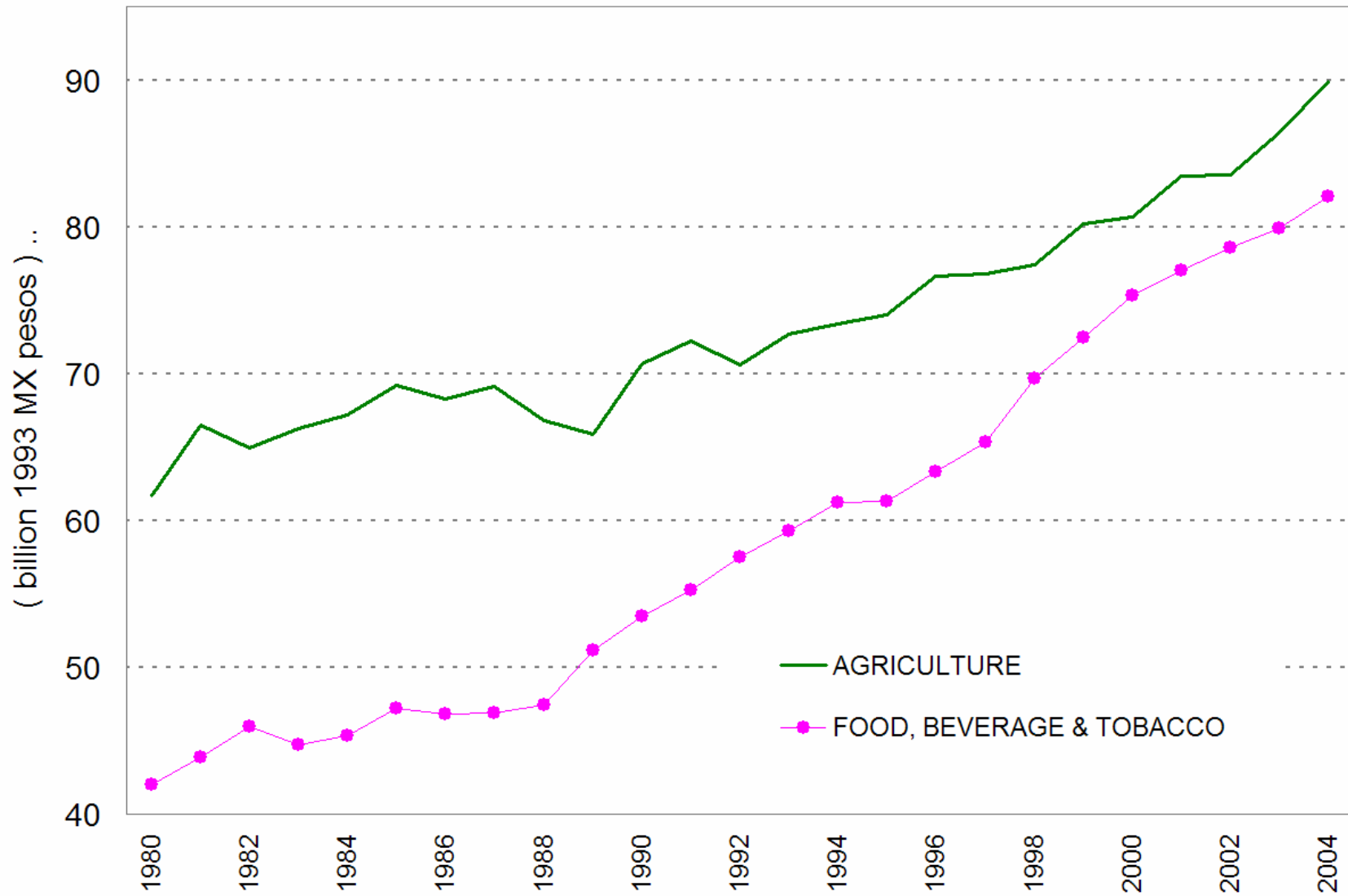
NOTE: Data up to September 2004.
Source: Secretaría de Economía (a). "Cuadro No. 6: Distribución por Rama de Actividad de la Inversión Estadounidense en México", March, 2005, available at: <http://www.economia.gob.mx/pics/p1177/ALISEP04.xls>

PRODUCTION INDEX 1980 - 2004 (1980 = 100, 1993 prices)



SOURCE: INEGI. <http://dgcnesyp.inegi.gob.mx/cgi-win/bdieinti.exe/Consultar> and <http://www.inegi.gob.mx/est/contenidos/espanol/tematicos/coyuntura/coyuntura.asp?t=agr03&a=-1&c=1053> . April 26, 2005.

AGRICULTURE VS. FOOD, BEVERAGE & TOBACCO PRODUCT (1980 - 2004)

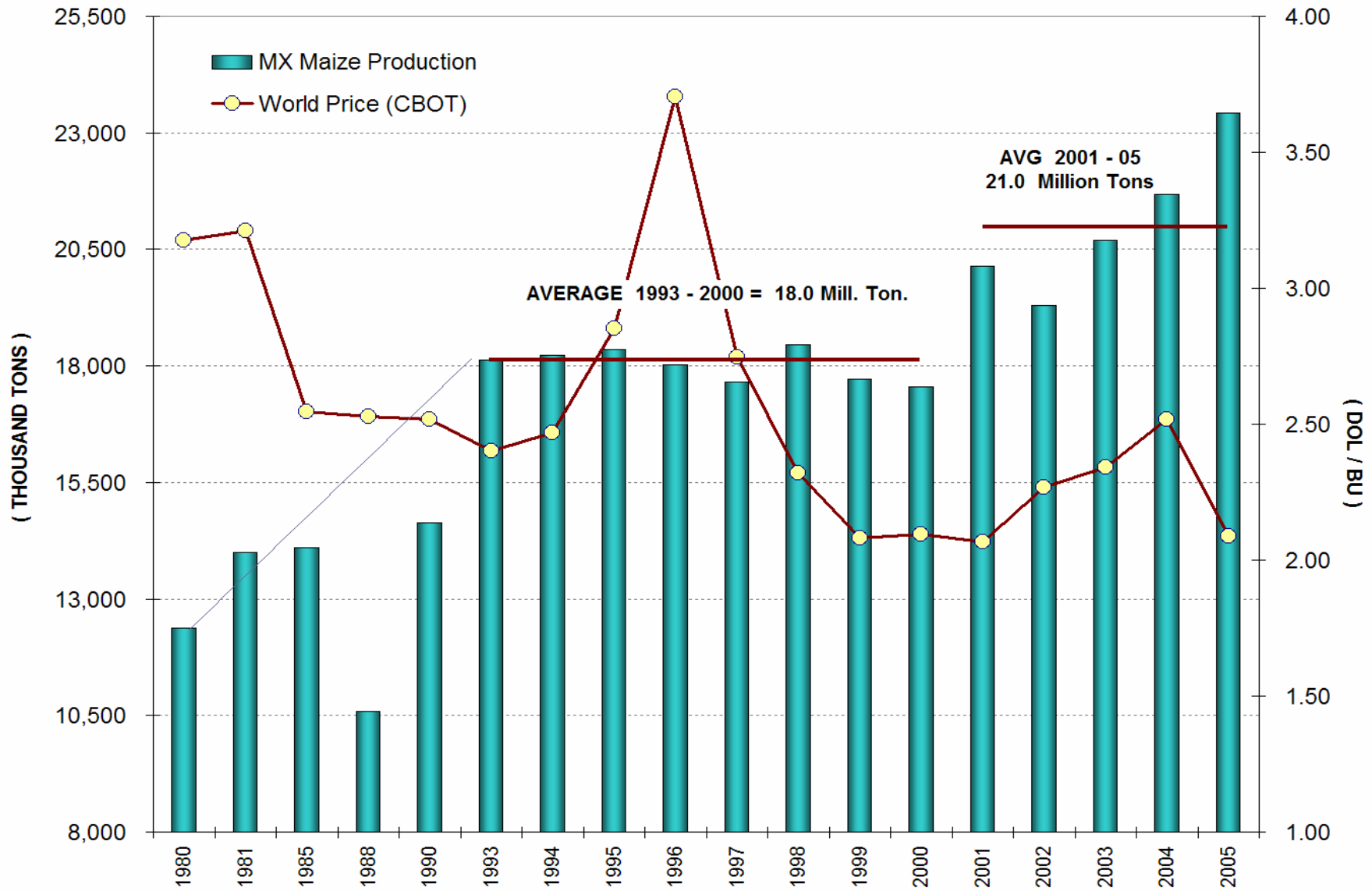


Source: INEGI. <http://dgcnesyp.inegi.gob.mx/cgi-win/bdieinti.exe/Consultar> and <http://www.inegi.gob.mx/est/contenidos/espanol/tematicos/coyuntura/coyuntura.asp?t=agr03&a=-1&c=1053> . April 26, 2005.

CORN: Still the main Mexican crop:

- **Corn cultivation in Mexico has questioned some forecasts.**
- **From 1980 – 2004:**
 - 48.6% - 56.2% of the total annually cultivated area
 - 7.6 million ha (min), 8.3 million ha (avg)
 - Increasing when total descends
- **Engaged in corn cultivation (1998):**
 - 61.2% of ejidatarios
 - 66.6% of private owners
 - Plots' size: Ejidatarios: 3.1 ha.; Private owners: 5.8 ha.
- **Land use:**
 - 1981: 12% irrigated
 - 2003: 17%

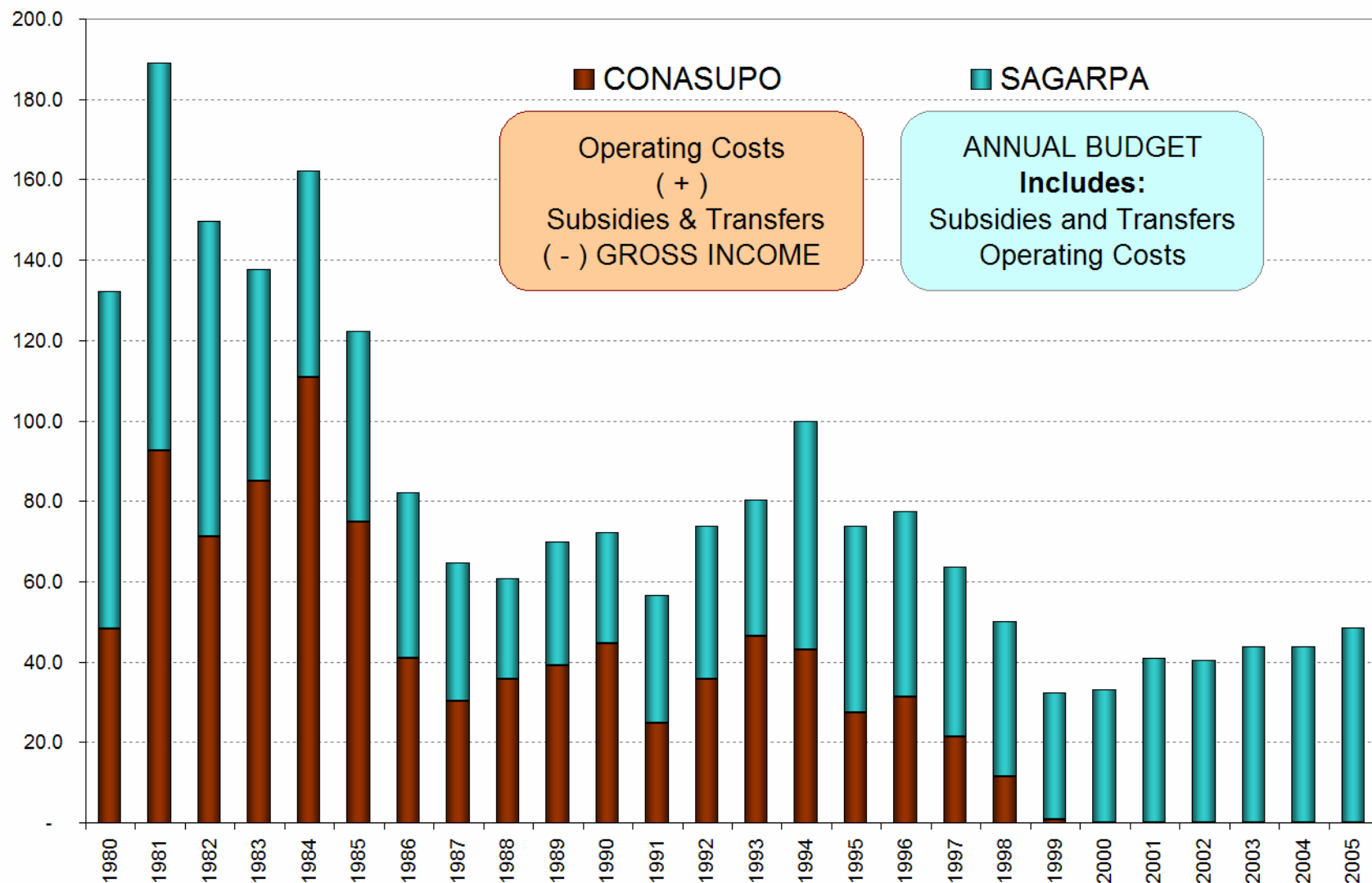
MX MAIZE PRODUCTION VS. WORLD PRICE 1980 - 2005



SOURCE: SAGARPA / SIAP. 2005: Program.; FC-Stone, with CBOT nearby future contract, annual average.

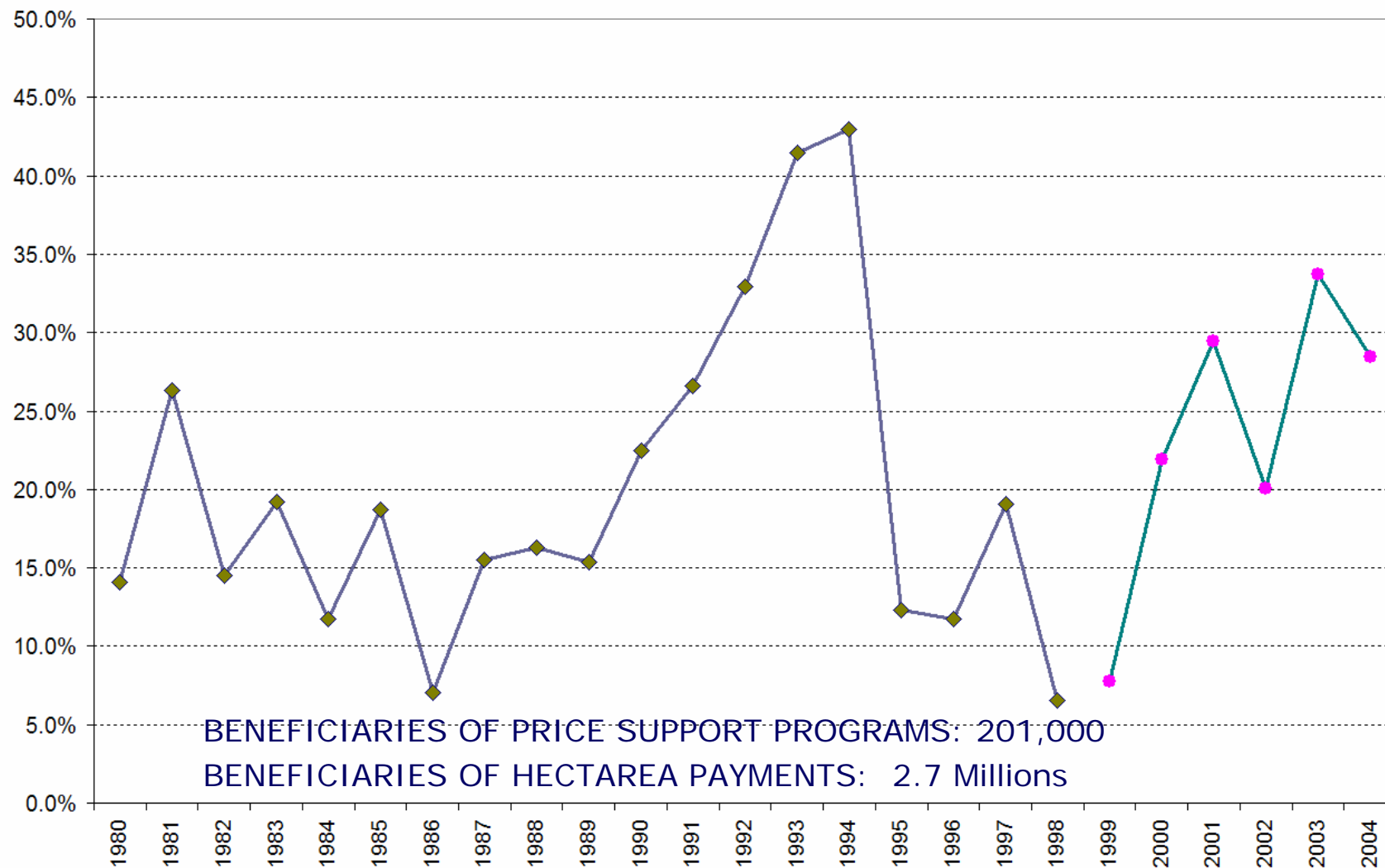
CONASUPO operating balance & SAGARPA budget 1980 - 2005

(Billion pesos of 2005)



SOURCES: Secretaría de Hacienda y Crédito Público, Dirección General Adjunta de Estadística; and Cámara de Diputados, Centro de Estudios de las Finanzas Públicas.

MEXICO: PERCENTAGE OF THE CORN PRODUCTION BOUGHT BY CONASUPO & SUPPORTED BY SAGARPA / ASERCA 1980 - 1998



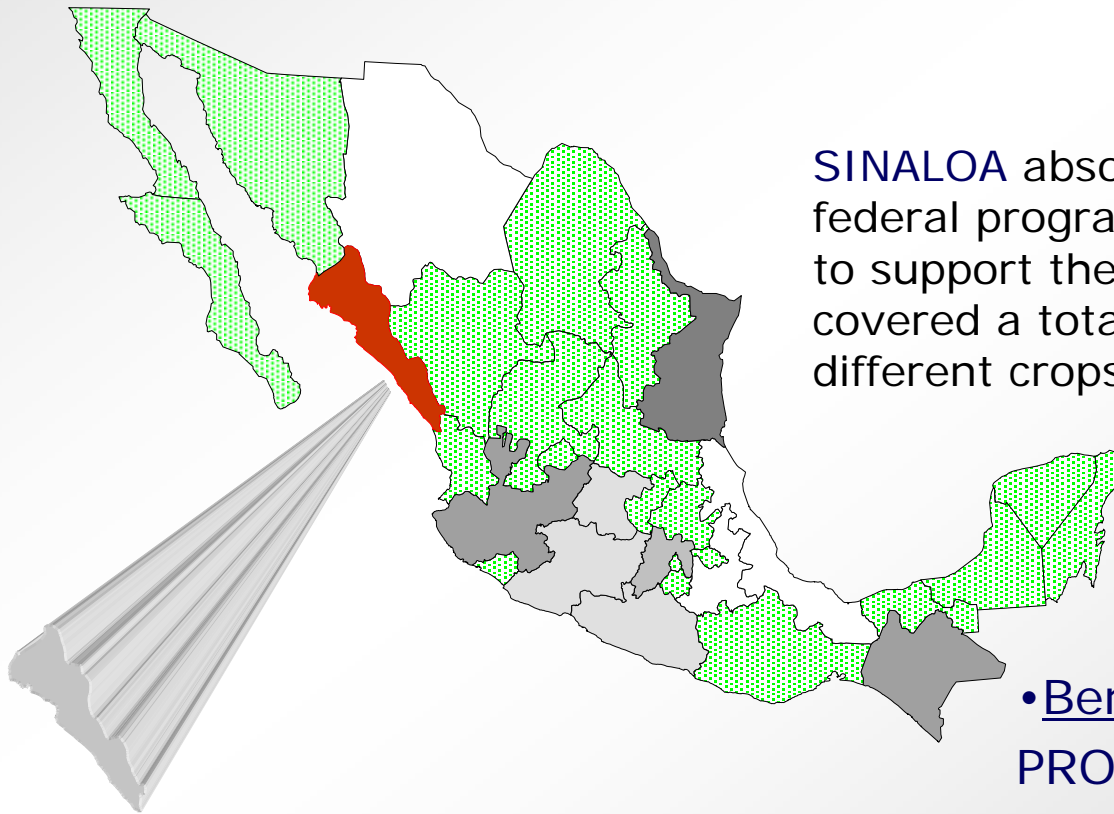
Source: CONASUPO, Gerencia de Operaciones, and SAGARPA / ASERCA, Dirección de Esquemas Comerciales, 2005.

SINALOA

CORN PRODUCTION IN SINALOA (Tons)

Year	Irrigated	Rainfed	I + R	Share
1981	53,219	22,391	75,610	0.7%
2001	2,574,507	76,207	2,650,714	13.2%
2005	4,130,826	103,301	4,234,127	18.1%

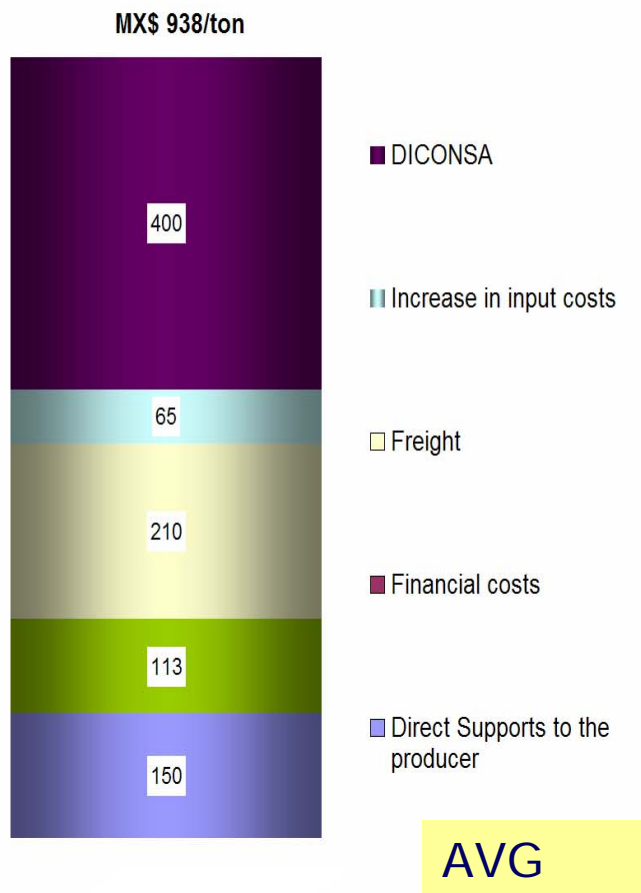
Yields (2005): 15.1 2.7 8.9



SINALOA absorbed in 2004 18.6% of the federal programs implemented to support the commercialization that covered a total of 25 million tons of different crops.

• Beneficiaries in Sinaloa:
PROCAMPO Corn: 16,233

MEXICO: MARKETING SUPPORTS TO CORN IN SINALOA, MX 2004

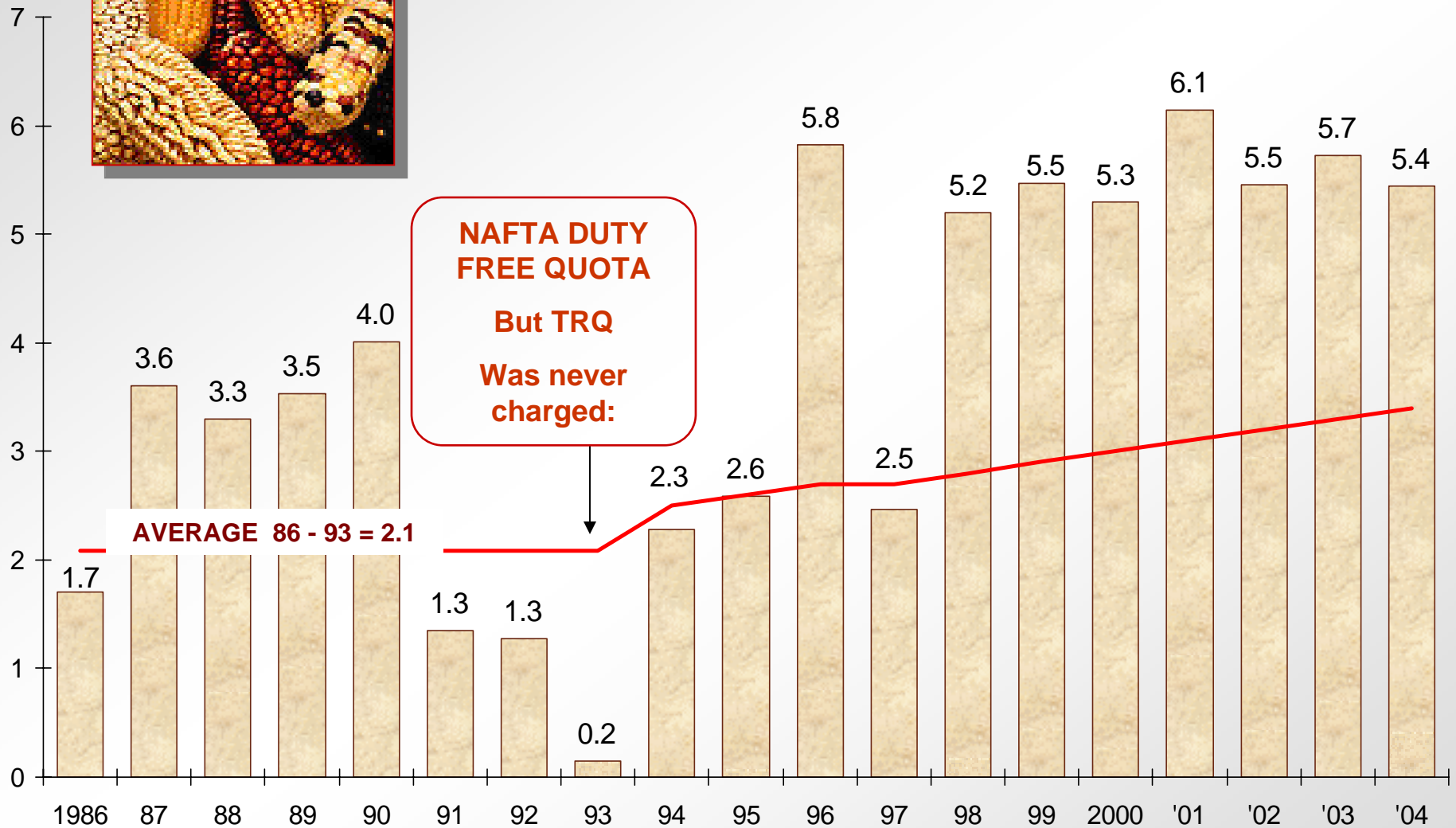
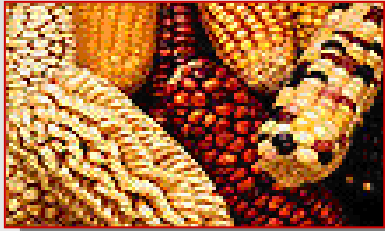


	Thousand Tons	Mill. Mx\$	Mx\$ / ton
	195.1	78.0	938.0
	3,729.5	242.4	538.3
	508.9	107.1	473.3
	220.8	24.9	262.9
	3,850.2	577.5	150.0
	3,850.2	1,030.0	267.3

Avg. = MX\$267.5 Max = MX\$938 Target Price = MX\$1,715

- DICONSA support affects local markets in poor areas.

MAIZE IMPORTS 1986 - 2004 (million tons)



SOURCE: BANXICO, from 1986 – 1988; Secretaría de Economía, since 1989.

EFFECTIVE CORN IMPORT QUOTAS 1994-2004
(TON)

SECTOR	1994	1996	2000	2001	2002	2004 2/
<u>YELLOW CORN 1/</u>	1,690,602	2,797,425	4,079,090	5,077,432	5,019,303	5,095,596
STARCH	918,167	1,244,744	1,758,672	1,947,743	1,798,061	1,698,148
CEREAL	11,787	-	74,353	117,477	131,622	108,230
SNACKS	-	-	17,021	20,396	7,637	82,144
FEED	719,186	1,326,076	2,229,044	2,991,816	3,081,983	3,207,074
OTHERS	41,462	226,605	-	-	-	-
<u>WHITE CORN 1/</u>	585,872	3,111,612	1,219,593	1,060,645	724,019	345,539
FLOUR	585,872	1,223,555	780,673	685,710	470,407	345,539
DICONSA	-	-	227,107	224,345	136,392	-
DOUGH & TORTILLA	-	40,000	211,813	150,590	117,220	-
CONASUPO	-	1,533,057	-	-	-	-
ANDSA	-	315,000	-	-	-	-
TOTAL	2,276,474	5,909,037	5,298,683	6,138,077	5,743,323	5,441,135

EFFECTIVE CORN IMPORT QUOTAS 1994-2004
(%)

SECTOR	1994	1996	2000	2001	2002	2004 2/
<u>YELLOW CORN 1/</u>	74.3	47.3	77.0	82.7	87.4	93.6
STARCH	40.3	21.1	33.2	31.7	31.3	31.2
CEREAL	0.5	-	1.4	1.9	2.3	2.0
SNACKS	-	-	0.3	0.3	0.1	1.5
FEED	31.6	22.4	42.1	48.7	53.7	58.9
OTHERS	1.8	3.8	-	-	-	-
<u>WHITE CORN 1/</u>	25.7	52.7	23.0	17.3	12.6	6.4
FLOUR	25.7	20.7	14.7	11.2	8.2	6.4
DICONSA	-	-	4.3	3.7	2.4	-
DOUGH & TORTILLA	-	0.7	4.0	2.5	2.0	-
CONASUPO	-	25.9	-	-	-	-
ANDSA	-	3.3	-	-	-	-
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: Secretaría de Economía.

ANNUAL DOMESTIC CONSUMPTION OF MAIZE 2001

ITEM	VOLUME (Mill. MT)	SHARE (%)
WHITE MAIZE		
	10.5	45.5
Corn flour	3	13.0
Tortilla (dough)	2.8	12.1
Rural human consumption (Estimated)	2.9	12.6
TOTAL HUMAN CONSUMPTION (White maize)	8.7	37.7
Rural animal consumption (Estimated)	1.8	7.8
YELLOW MAIZE		
	12.6	54.5
Starch and byproducts	2.2	9.5
Cereales & snacks (Includes Grits)	0.4	1.7
Livestock Sector (Integrated plants)	3.9	16.9
Livestock Sector (Independents Plants)	2.2	9.5
Other Livestock Consumptions (Cracked maize imports + shorgum)	3.9	16.9
TOTAL LIVESTOCK CONSUMPTION	10	43.3
TOTAL DEMAND		
	23.1	100.0

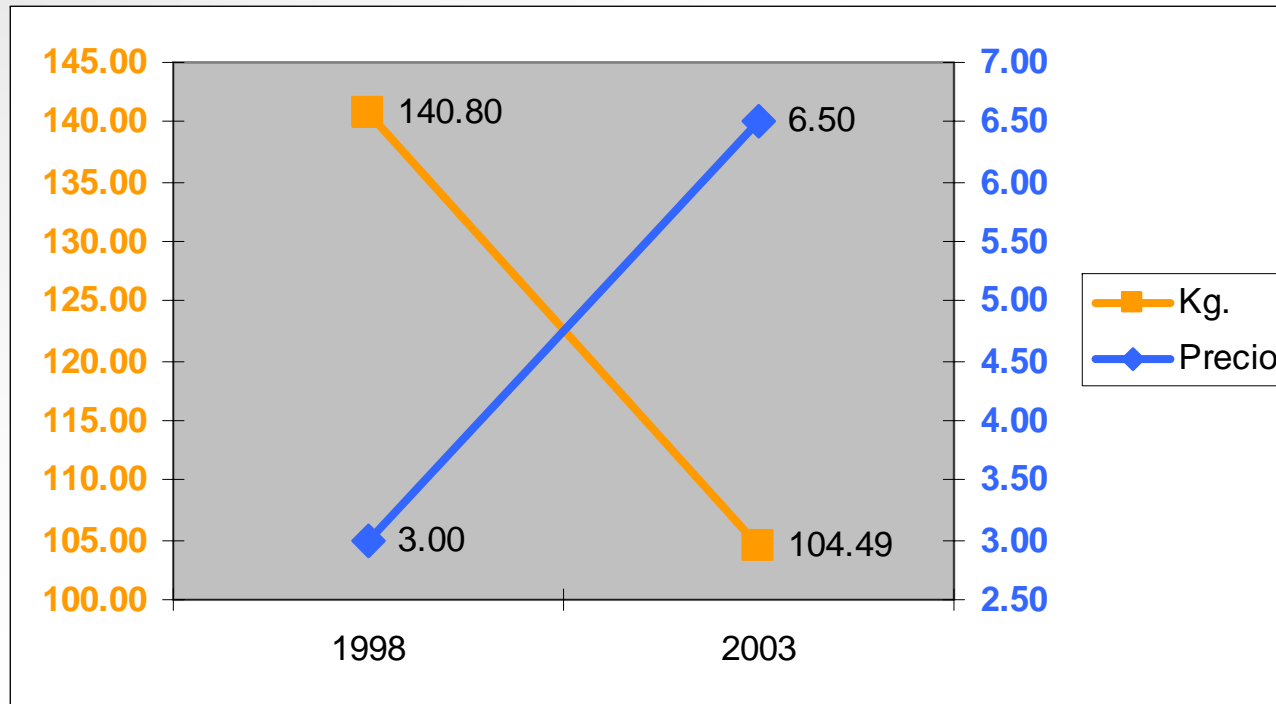
Source: Camara Nacional de Maíz Industrializado (CANAMI), <http://www.cnmaiz.org.mx/estadistica/index.html>. April 20, 2005.

Estimated Maize Tortilla Consumption 2004 = 10.7 millions MT.

- Provides 47% of calories in the daily diet of Mexicans.
- Population \leq three minimum wages, this figure represents 65.5%.

FACTORS IN DEMAND ELASTICITY

Mexico's per capita annual consumption of tortilla vs. price



- Increase in price: 117%
- Decrease in consumption: 26%

Source: Cámara Nacional de Maíz Industrializado. June, 2004

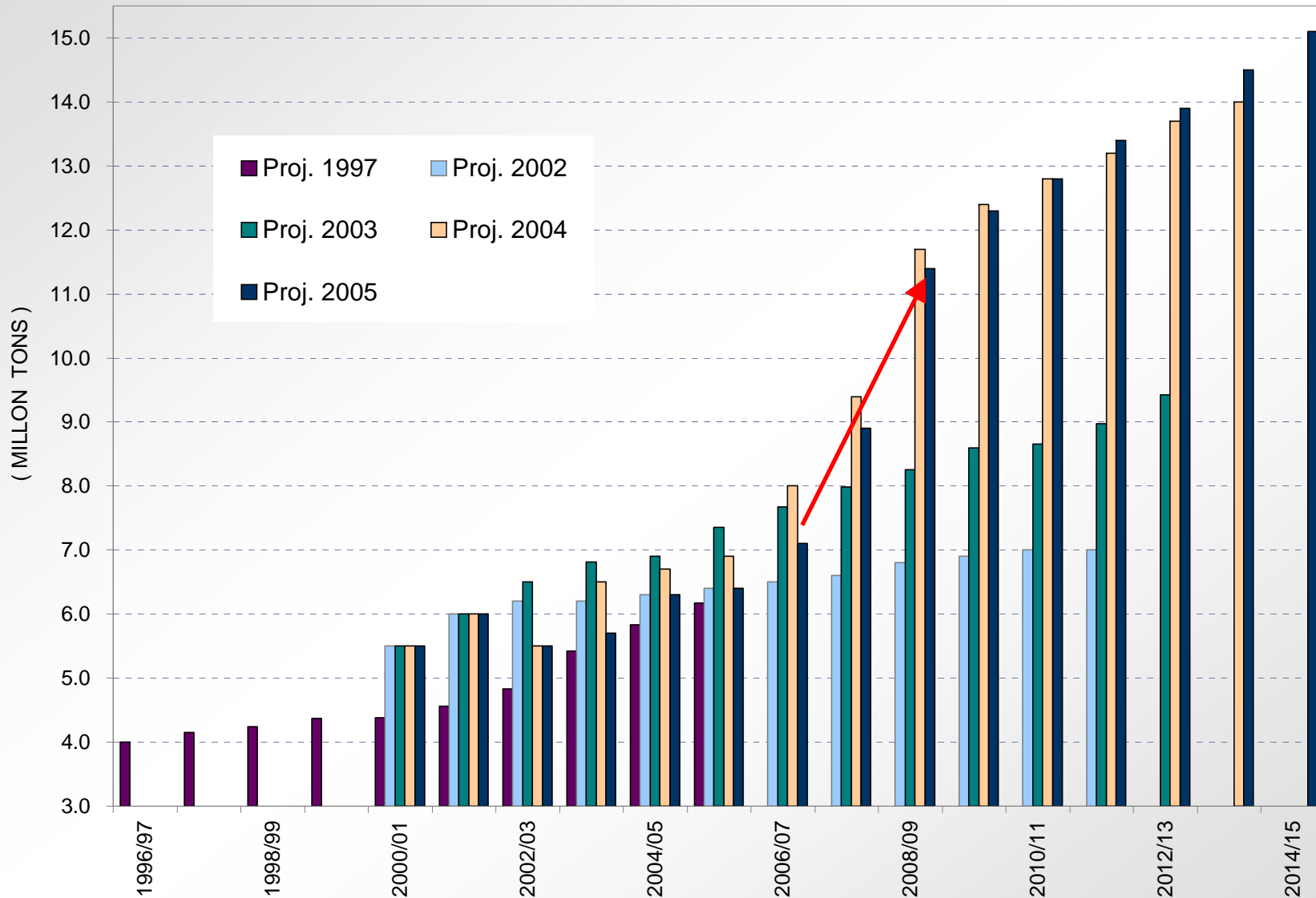
MEXICO: CORN IMPORTS FROM THE UNITED STATES 1999 - 2004

YEAR	WHITE TON	YELLOW TON	OTHERS TON	TOTAL TON	CRACKED TON	CORN + PROC. TON
1999	-	-	5,449,467	5,449,467	151,377	5,600,844
2000	-	-	5,299,548	5,299,548	260,126	5,559,674
2001	489,173	2,860,484	2,788,422	6,138,079	863,359	7,001,438
2002	645,176	4,749,002	35,126	5,429,305	2,029,901	7,459,206
2003	294,771	5,401,119	28,895	5,724,785	2,684,989	8,409,774
2004	374,738	5,375,252	184	5,750,175	2,309,770	8,059,945
Ene - mar 2004	100,234	515,310	-	615,545	698,318	1,313,862
Ene - mar 2005	21,348	496,707	-	518,055	708,418	1,226,473

NOTE: Includes 24.5 thousand tons from Argentina.

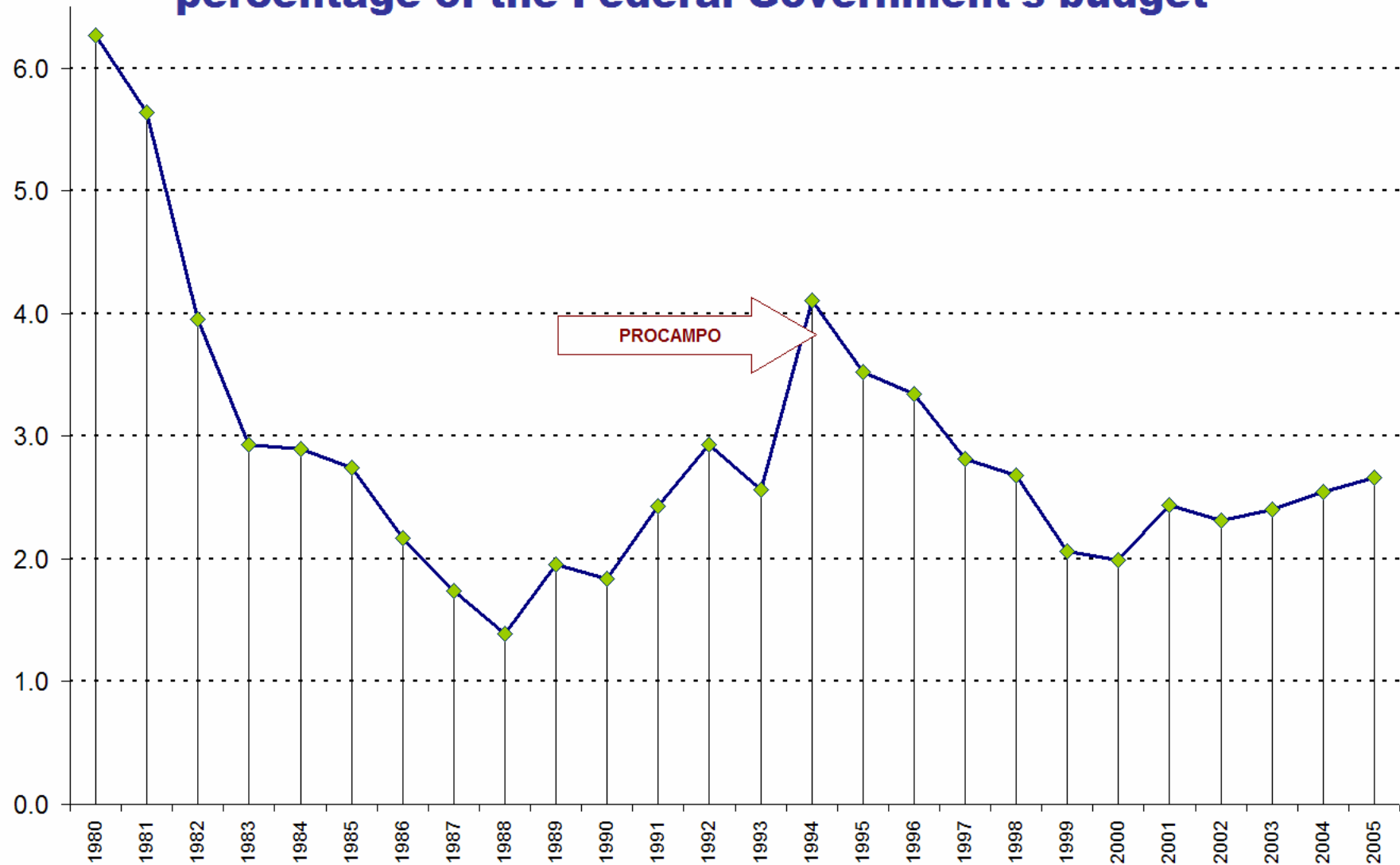
SOURCE: SAGARPA / SIAP

MEXICO: CORN IMPORTS FROM U.S. (USDA Baseline)



Source: "Agricultural Baseline Projections". Several years. Office of the Chief Economist. Washington, DC.

MEXICO: Agriculture's budget (SAGARPA) as percentage of the Federal Government's budget



Source: Centro de Estudios de las Finanzas Públicas, with data from SHCP, Cuenta de la Hacienda Pública Federal, 1980-2003, SHCP. Cámara de Diputados, México. April, 2005.

PROPOSED SUPPORT STRUCTURE IN THE MARKET LIBERALIZATION PROCESS

**PREVIOUS
SITUATION**

GUARANTEE
OR
CONCERTED
PRICES

**TRANSITION
SCHEME**

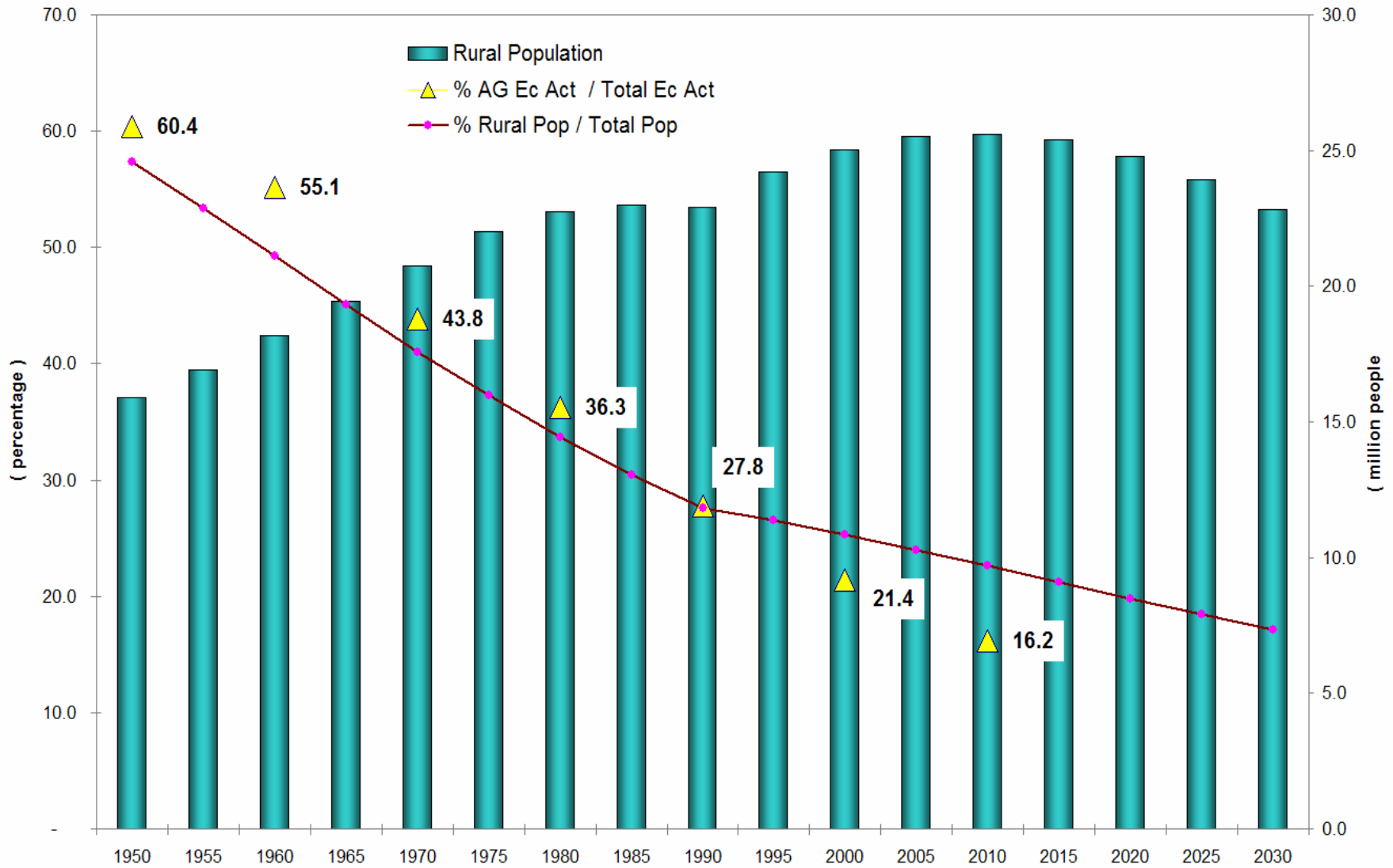
PAYMENT
PER
HECTARE
OR
CONCERTED
PRICES

**DEFINITIVE
SITUATION**

PAYMENT
PER
HECTARE



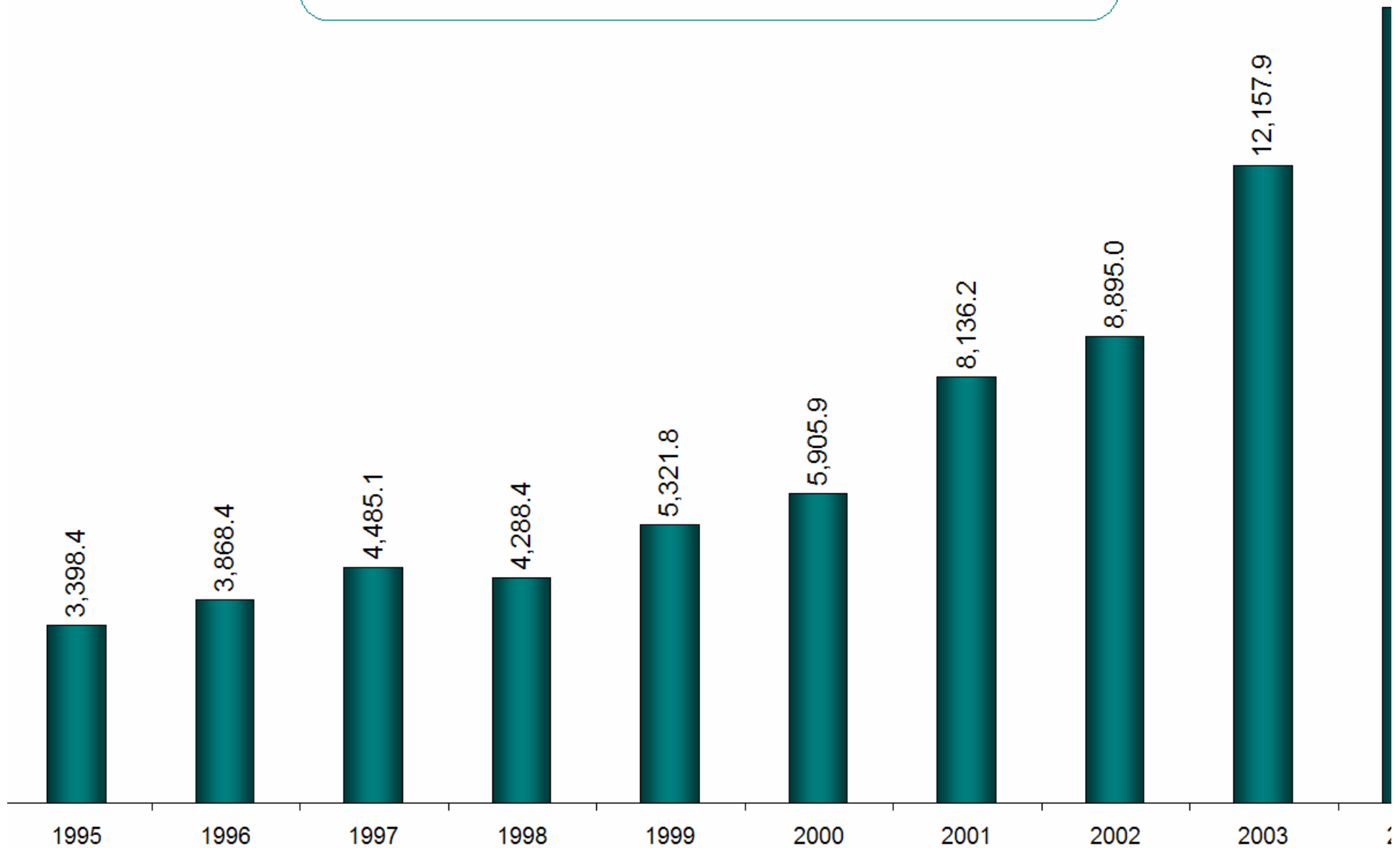
MEXICAN RURAL POPULATION STILL GROWING, WHILE AGRICULTURAL ECONOMICALLY ACTIVE POPULATION



SOURCE: FAOSTAT data, 2004. <http://faostat.fao.org/faostat/servlet>. Last accessed April 2005.

FAMILY REMITTANCES 1995 -2004

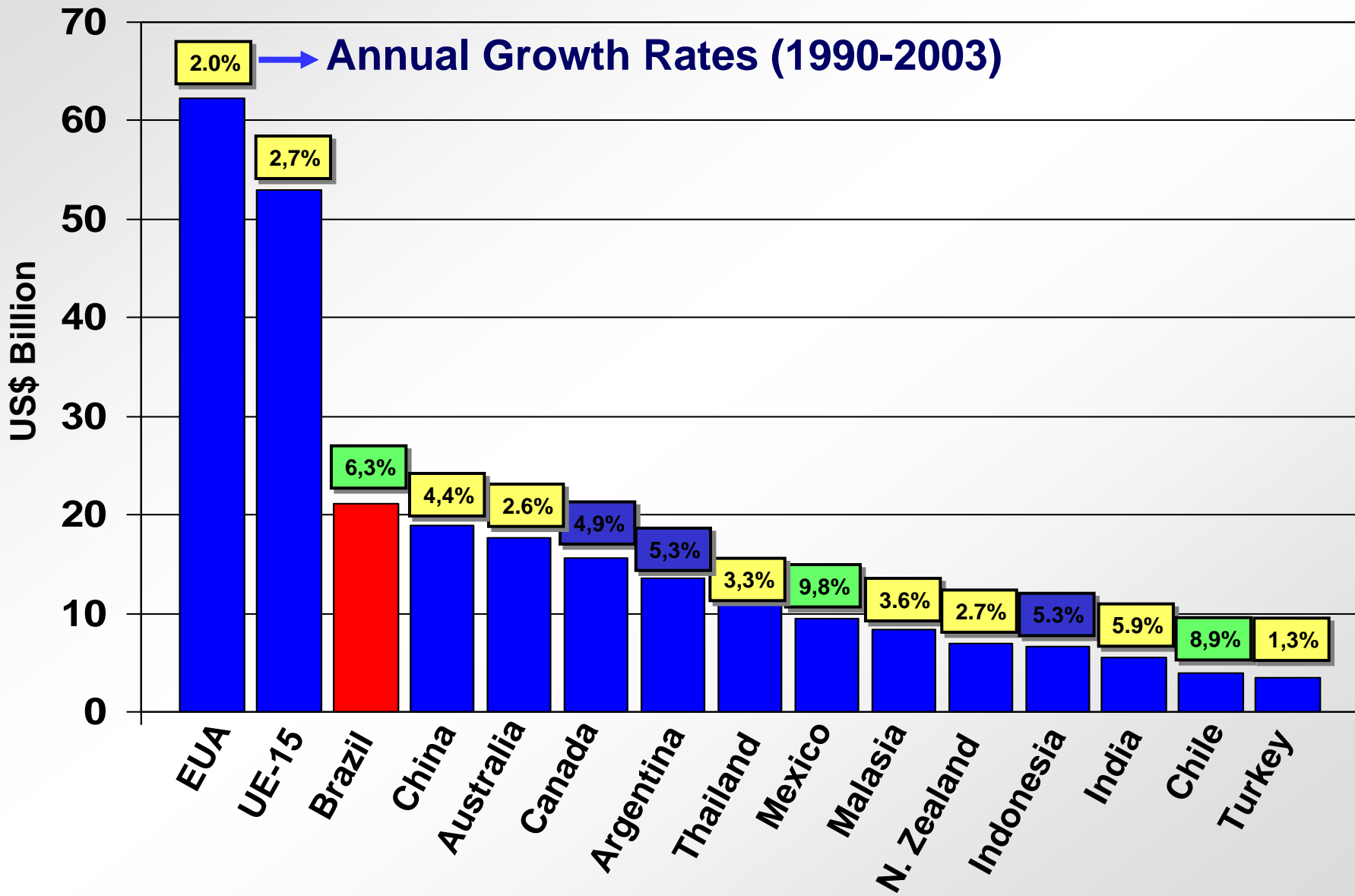
(million dollars)



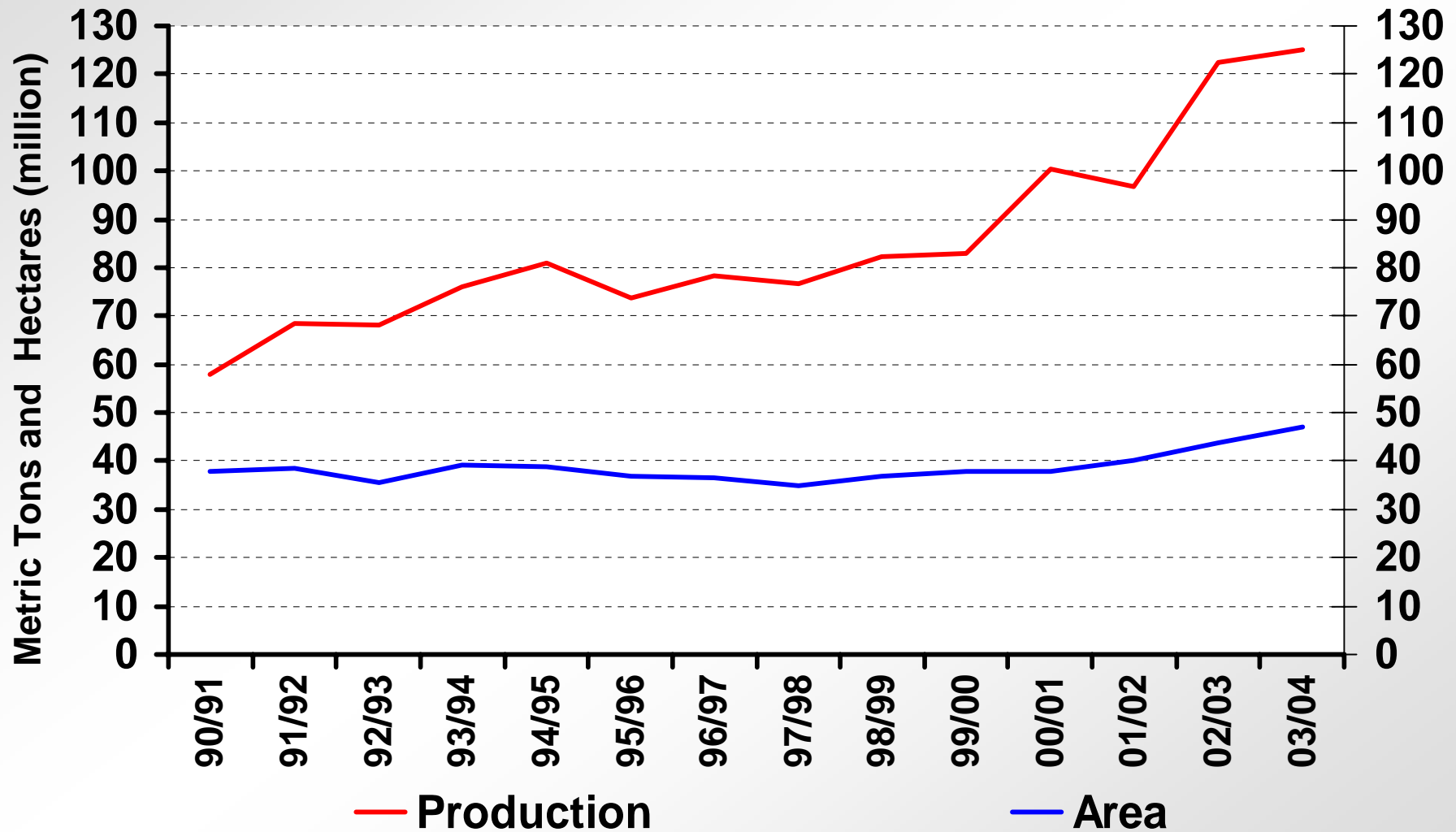
Brazil

- **Economic reform program (early 1990s)**
 - Control of inflation (Real Plan)
 - Macroeconomic stability
 - Privatization of state-owned enterprises
 - Industry deregulation
- **Agricultural policy**
 - Dismantling of agricultural credit and price support policies
 - Land reform: 500,000 families
 - Targeted programs (family farms)
- **Trade liberalization and integration**
 - GATT
 - MERCOSUR
 - Unilateral reduction in tariffs

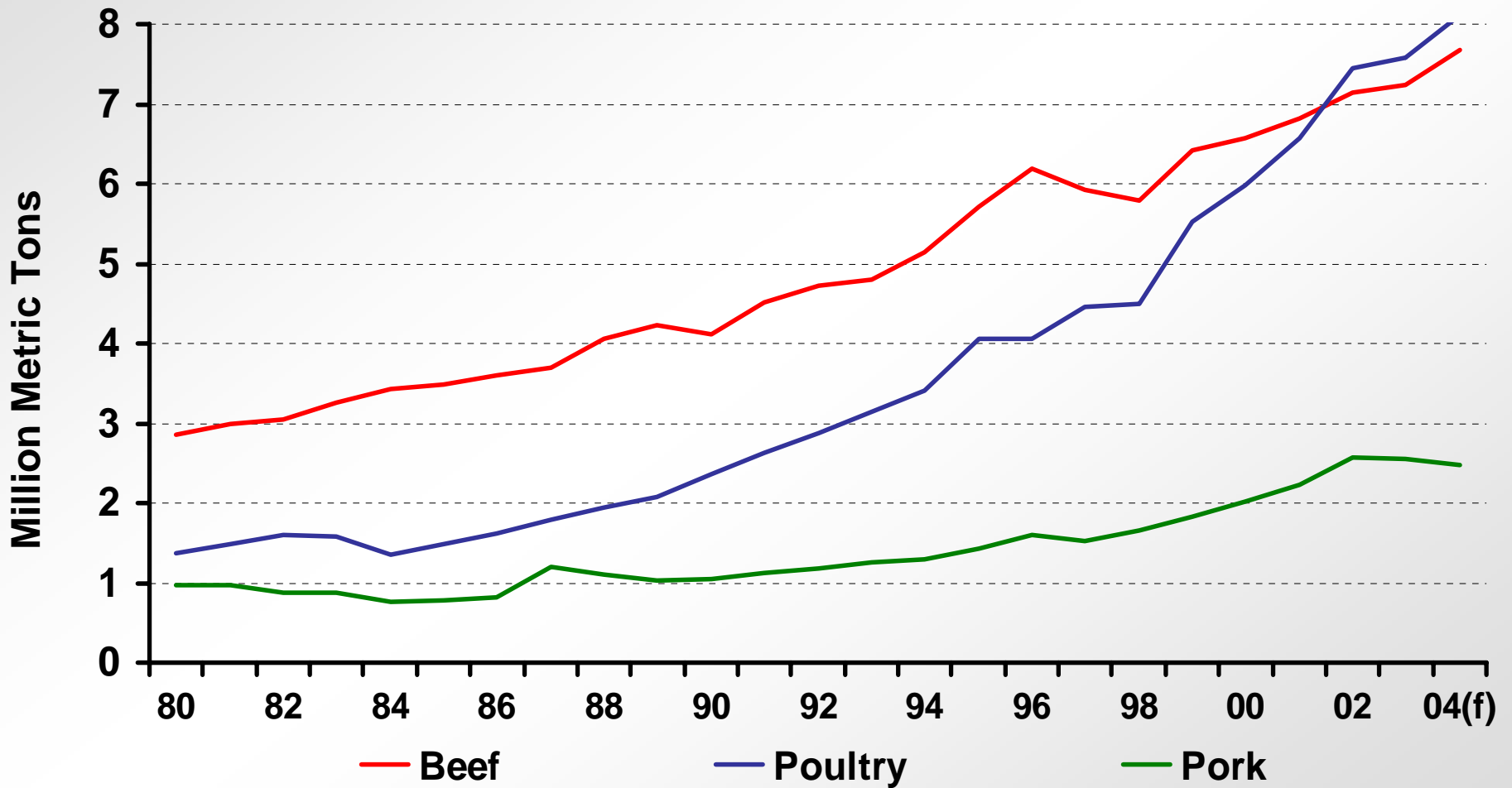
Main Agricultural Exporters (2003)



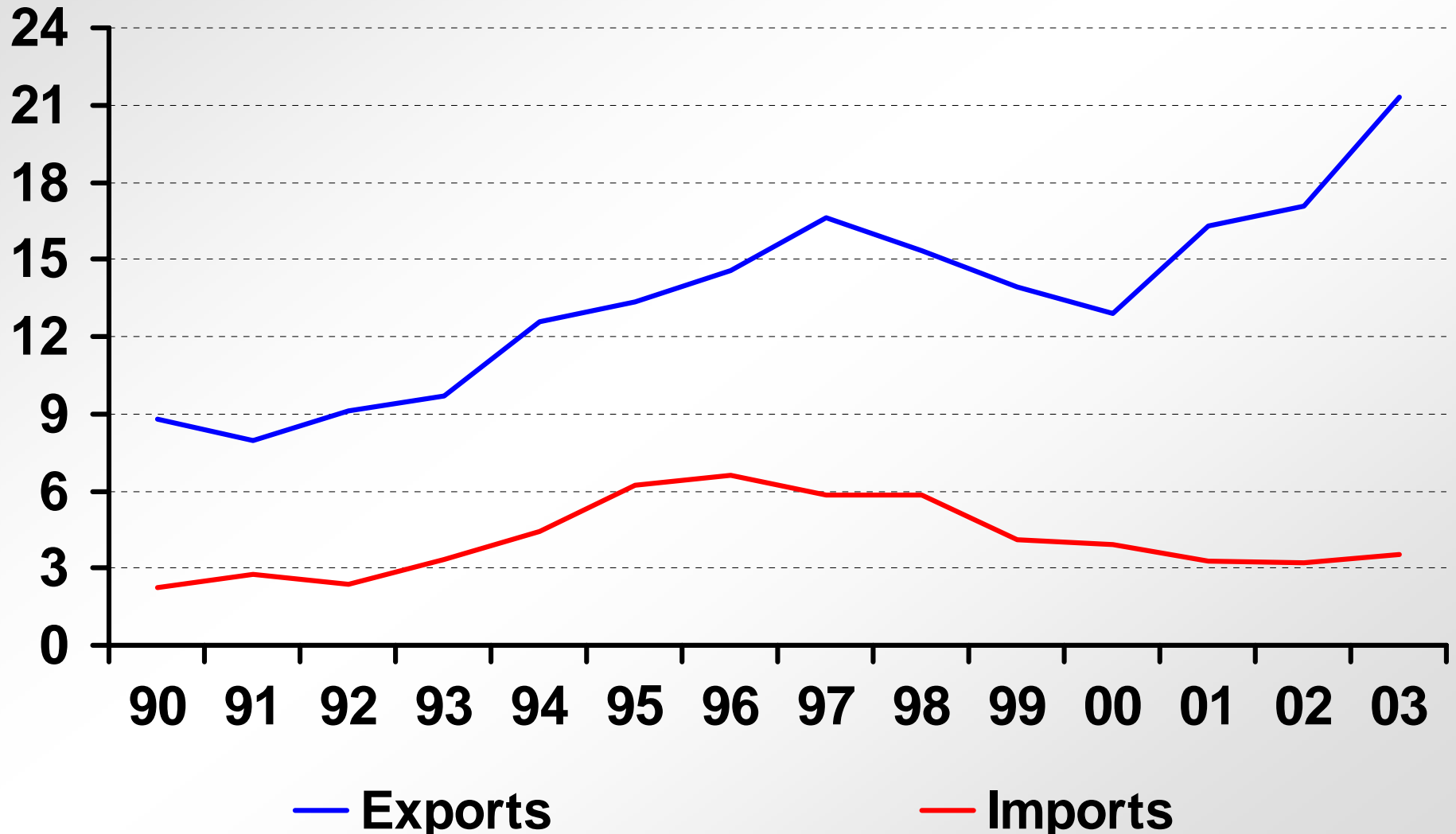
Brazil: Growth in Agricultural Production (1990-2004)



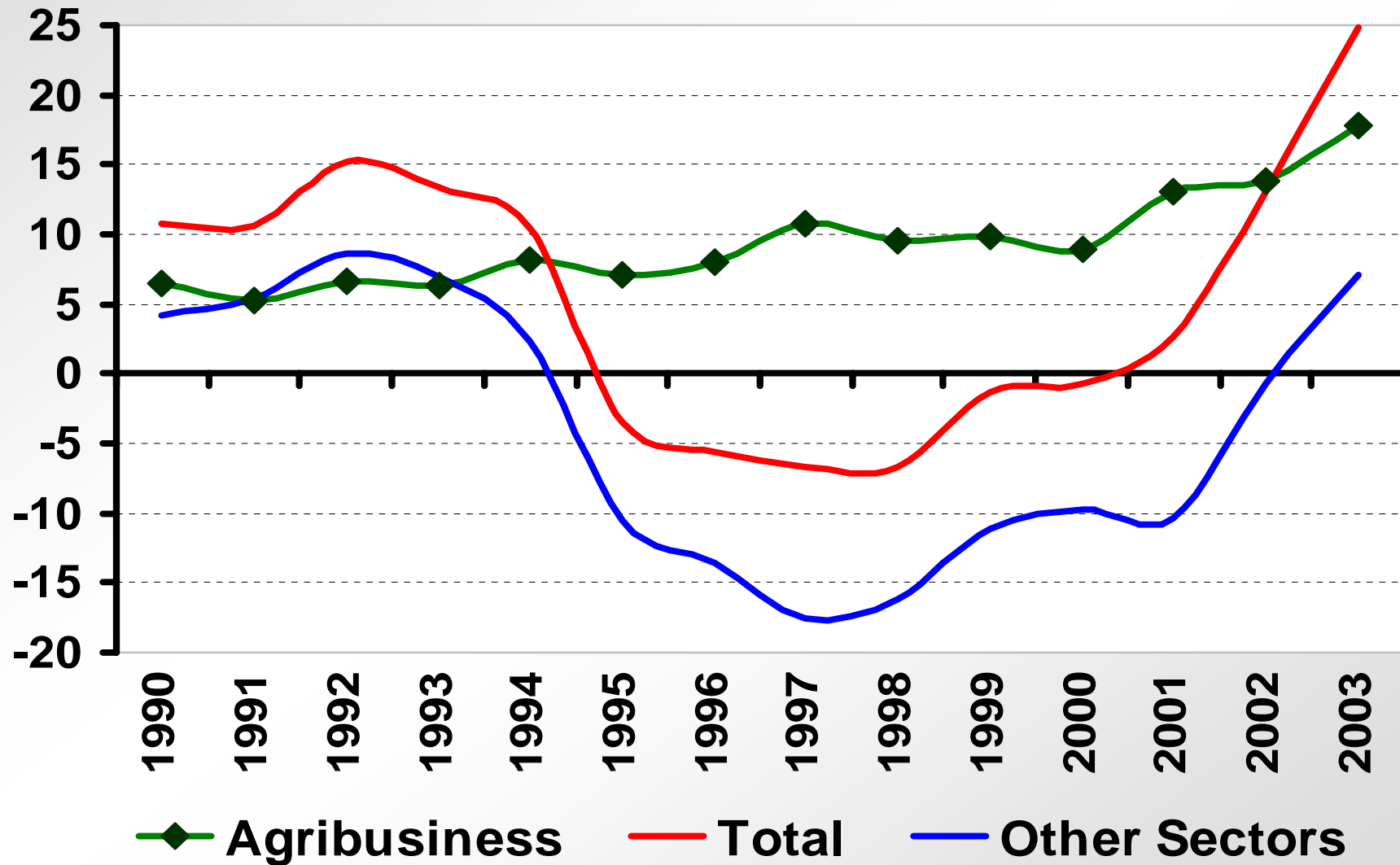
Brazil: Growth in Meat Production (1980-2004)



Brazil: Agricultural Trade Balance (US\$ Billion) (1990-2003)



Brazil: Trade Balance (US\$ Billion) (1990-2003)



Agrifood Integration in Specific Commodities

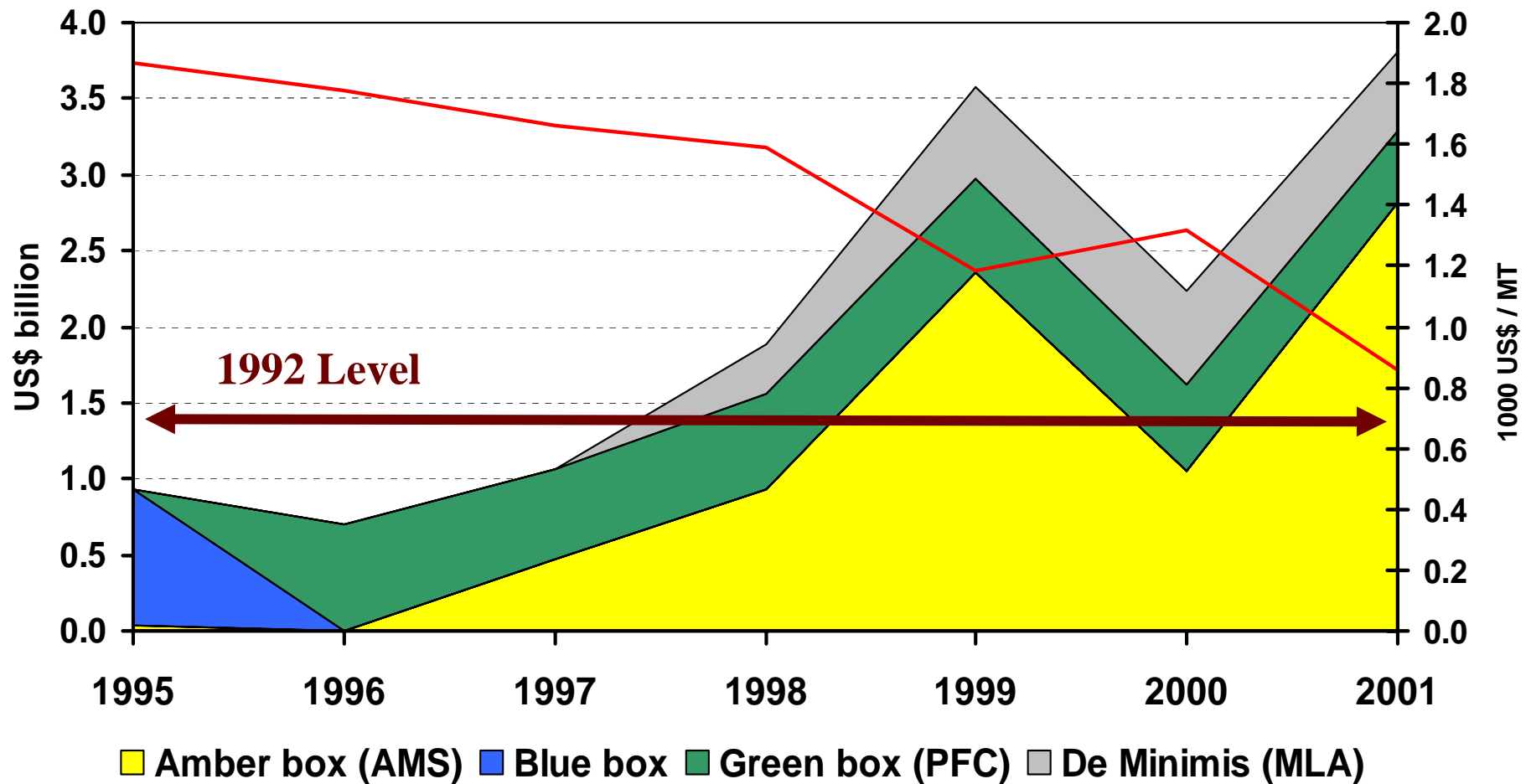
Negotiation Through Litigation: Brazil's WTO Cotton Case

- **September 2002: Brazil filed 2 dispute cases against:**
 - US cotton subsidies
 - EU sugar export subsidies
- **First time a developing country challenged developed countries' protectionism in agriculture**
- **Cotton: one of the most distorted commodities**
 - High levels of domestic subsidies and barriers to trade
 - ICAC: \$3.8 - \$5.8 billion between 1997 and 2002
 - Value of world cotton market: \$ 20 billion in 2002
 - Developing countries: tariffs between 5-15%
 - US: tariff-rate quotas (TRQs)

Negotiation Through Litigation: Brazil's WTO Cotton Case

- **Violation of Article 13 of the Agreement on Agriculture (Peace Clause)**
- **Export credit program and Step 2 payments are export subsidies prohibited under AoA**
- **US cotton subsidies caused “serious prejudice” to Brazilian producers:**
 - Subsidies depressed cotton prices costing \$478 million in lost revenues to Brazilian producers between 1999 and 2002
 - Subsidies allowed US producers to increase acreage and to double world market share between 1998 and 2002

US Cotton: Product Specific Subsidies and Prices



On June 18, 2004, the WTO dispute panel issued its final ruling, agreeing with Brazil on most of its claims and recommending the US to eliminate or modify the offending programs.

Negotiation Through Litigation: Brazil's WTO Cotton Case

- **WTO dispute panel final ruling (2004):**
 - US cotton subsidy levels between 1998 and 2002 exceeded the 1992 level and thus are not protected under the Peace Clause
 - US price-based cotton programs caused world cotton price suppression and serious prejudice to Brazilian producers
 - Decoupled programs (AMTA, crop insurance) did not contribute to price suppression
 - Direct payments did not qualify as green box because of prohibition on fruit and vegetable
 - US cotton subsidies did not contribute to increase in US world market share
 - Step 2 and export credit guarantee programs characterized as export subsidies

Implications

- **US has mistakenly notified \$6 billion in annual direct payments as green box instead of amber box (“dirty decoupling”)**
- **Price-based support programs act as a price floor and shield US producers from market signals**
- **Adjusting these programs might affect other commodity programs**

Orange Juice: Effects on Trade and FDI

- **The US is one of the most open economies in the world**
- **But agriculture remains an exception**
- **Low average tariff rates but protection of “sensitive” products:**
 - Lump-sum tariffs
 - TRQs
 - Special safeguards
 - SPS restrictions
- **This protection directly affects some of Brazil’s main export products, including:**
 - Sugar and Ethanol
 - Tobacco
 - FCOJ

Comparative Tariff Structure: Mercosur, EU-15 and US

Tariff Profile (HS - 8 digits)	Agricultural Goods			Industrial Goods		
	Mercosur	EU-15	US	Mercosur	EU-15	US
Mean	9.9%	29.3%	12.4%	10.9%	4.4%	4.2%
Median	10.0%	14.4%	4.4%	14.0%	3.0%	2.9%
Standard deviation	5.0%	40.3%	29.8%	6.7%	4.2%	5.6%
Maximum	20.0%	277.2%	350%	35.0%	26.0%	58.5%
# of Tariff lines (A)	959	2,091	1,808	8,771	8,187	8,698
# tariff lines > 30% (B)	0	636	102	53	0	46
% (B/A)	0.0%	30.4%	5.6%	0.6%	0.0%	0.5%

Note: All minimum tariffs are zero.

World average tariff rate in agriculture is 62% (2001)

US Tariff Rate Quota Schedule for Imported FCOJ (US\$/SSE gallon)

Year	Mexico			Canada	Caribbean	Brazil
	In-Quota	Over-Quota	Snapback			
1989	n/a	n/a	n/a	0.3143	free	0.3502
1991	n/a	n/a	n/a	0.2423	free	0.3502
1993	n/a	n/a	n/a	0.1742	free	0.3502
1995	0.1751	0.3327	0.3415	0.1022	free	0.3415
1997	0.1751	0.3152	0.3237	0.0341	free	0.3237
1999	0.1751	0.2977	0.3059	free	free	0.3059
2001	0.1751	0.2977	0.2972	free	free	0.2972
2003	0.1751	0.2977	0.2972	free	free	0.2972
2005	0.1751	0.1786	0.2972	free	free	0.2972
2007	0.0595	0.0595	0.2972	free	free	0.2972

For the average 2002 FCOJ price, the specific tariff rates for FCOJ and NFC were equivalent to *ad valorem* tariff rates of 56.7% and 13.7% respectively.

Orange Juice: Effects on Trade and FDI

- **Significant decrease in US imports of FCOJ since early 1990s (1/2)**
 - Lack of market access: TRQ system
 - Self sufficiency: orange production less vulnerable to freezes
 - Consumption trend: NFC juice
- **Decline in Brazilian FCOJ exports to the US from US\$ 460 million in 1989 to US\$ 190 million in 2003**
 - Other countries enjoy preferential tariff rates
- **FDI**
 - Cutrale acquired Minute Maid plants
 - Citrosuco acquired Alcoma plant
 - Cargill acquired P&G plant
 - Frutesp acquired Winter Garden plant

Orange Juice: Effects on Trade and FDI

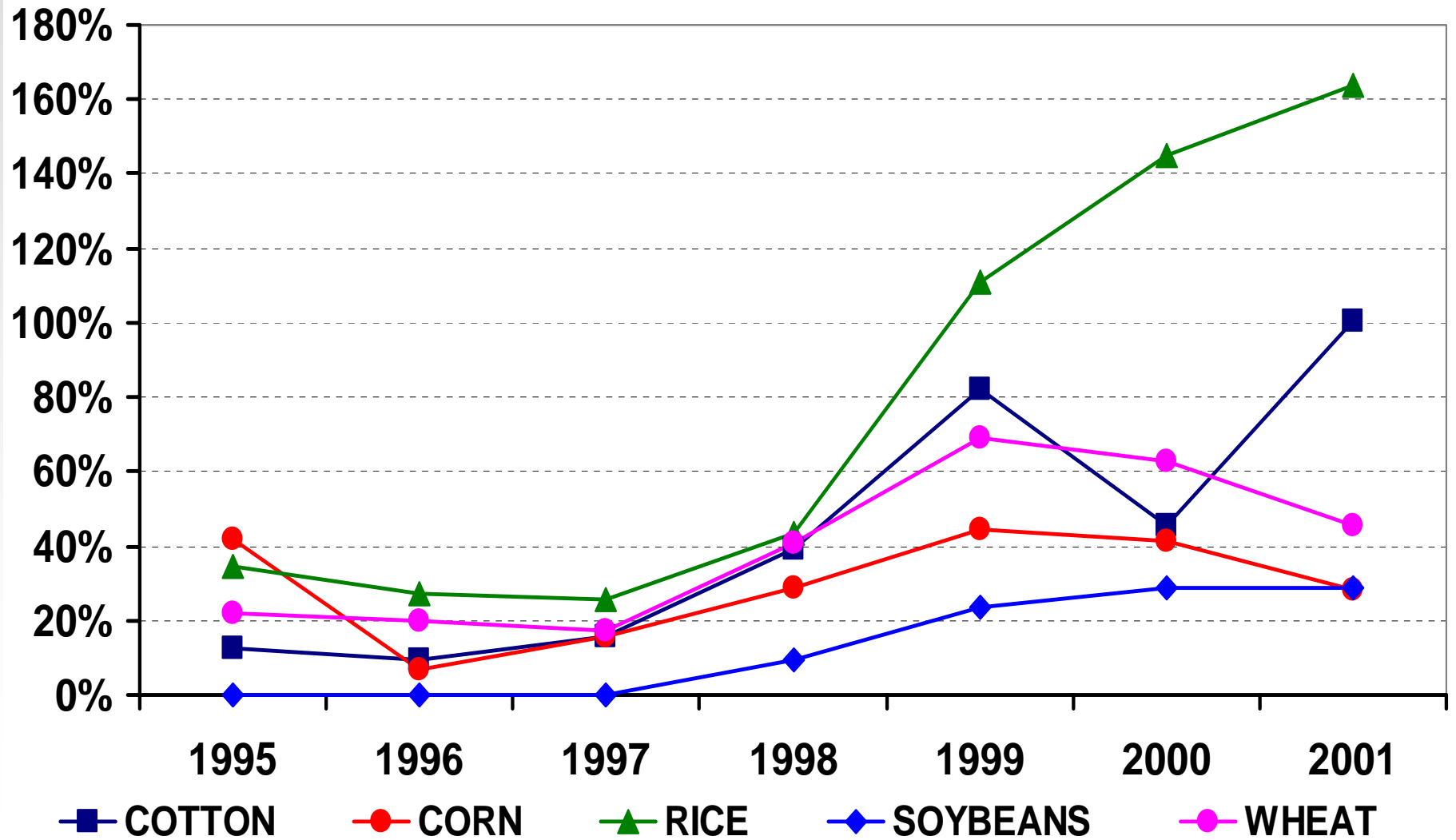
- **Orange juice chain restructuring**
 - Vertical des-integration
 - Alliances between juice processors and beverage industry
- **Classic “Dunning” effect: trade barriers foster FDI as an alternative for MNEs to explore competencies in the host country**
- **High and selective trade barriers for Brazil’s FCOJ in the US has negative effects on Brazilian producers but not necessarily on processors**

Perspectives from Developing Countries

WTO Doha Round

- **Strong ambition in the Doha mandate (2001)**
 - The “development round”
- **Setbacks in US Farm Act (2002) and timid EU Fischler CAP Reform (2003)**
- **Collapse of the September 2003 trade talks in Cancun**
 - Joint EU/US proposal
 - Defensive interests of the US (Domestic Support) and EU (Market Access)

Share of Subsidies in US Agricultural Production



WTO Doha Round

- **Ambitious agenda set at the July 2004 round in Geneva:**
 - Export Competition: elimination of all form or export subsidies and disciplines on all export measures
 - Domestic Support: elimination of cotton subsidies and overall reduction at the base level of all trade-distorting domestic support
 - Market Access: proposal for cuts on higher tariffs but flexibility for “sensitive” products
- **Definition of modalities to reduce tariffs and subsidies left for resolution at the December 2005 ministerial in Hong Kong**

Domestic Support and Export Subsidies in Developed Countries

		European Union (Euro Billion)		Unites States (USD Billion)	
		Overall Level	Applied Level	Overall Level	Applied Level
Trade Distorting Domestic Support	Amber Box (AMS)	67.2	43.7	19.1	14.4
	De Minimis	12.2	0.54	9.9	6.8
	Blue Box	12.2	22.2	9.9	-
	Total	91.6	66.4	38.9	21.2
	Initial Commitment*	73.3	-	31.1	-
Export Subsidies		7.5	2.6	0.6	0.1

* **Initial Commitment**: trade distorting support ceiling at the first year of the implementation period of the new agreement, equivalent to 80% of the overall level.

WTO Doha Round

- **What caused advances in agricultural liberalization?**
 - Negotiation through litigation: Brazil's cotton and sugar cases
 - Pressure from various African countries and NGOs
 - Emergence of the G-20
- **G-20**
 - Block of developing countries
 - Led by Brazil and India; includes Argentina, China and Mexico
 - Common goal: agrifood trade liberalization
 - Heterogeneous, pragmatic and agile coalition
- **Other coalitions representing developing countries**
 - G-90, G-32
 - Internal contradictions and conflicts of interest

Perspectives from Developing Countries: Complexity, Heterogeneity and Conflict of Interests

MARKET ACCESS

1. No commitments

- Around 32 countries (LDCs): already decided

2. Preference Erosion, Special Products:

- Largest group: LDCs, G-90, G-33.
- Ex.: sugar case/EU (developing countries divided)

3. Large consumers & rural populations

- India, China, Indonesia, Mexico
- Central role

4. Free-traders

- Net exporters
- 15 Countries including Argentina, Brazil, Chile, Central America, South Africa and Thailand

Perspectives from Developing Countries: Complexity, Heterogeneity and Conflict of Interests

DOMESTIC SUBSIDIES

1. Net food importers

- 56 countries

2. Net food exporters: unfair competition from subsidies in DCs

- EU "greening" its subsidies for internal reasons (budget constraints, enlargement)
- US increasing its subsidies: doubled in 2002 Farm Act
 - No round if the US does not "decouple" subsidies
 - Ex: cotton case (US vs. rest of the World)

Doha Interest Groups

Group	Countries	Agriculture		Industrial Goods	Services
		Subsidies	Access		
United States		Red	Green brick	Green	Green
European Union		Green brick	Red	Green	Green
Free traders (Cairns)	Australia, New Zealand, Chile	Green	Green	Green	Green
Ag resistant countries	G-10 (Japan, Korea, Taiwan, Switzerland, Norway, etc.)	Red	Red	Green	Green
G-20 main players	Brazil, Argentina, Thailand	Green	Red	Red	Red
	China	Green	Red	Green	Red
	India	Green brick	Red	Red	Green
Developing: SP, preference erosion	G-90 and G-33	Green brick	Red	Red	Red
Developing: net food importers	LDCs and others	Red	Red	Red	Red

 = Offensive position

 = Defensive position

Main Implication:

There is a new dynamics in multilateral negotiations where the traditional “Quad” consensus is replaced by a negotiating format requiring continuous efforts to harmonize the positions of key developed and developing countries.

Main Risk:

**“Shallow Bargain”
or
the least common denominator**

Free Trade Area of the Americas (FTAA)

- **Evolution**

- Full-fledged ➡ Light ➡ *“à la carte”* ➡ Almost dead ➡ Light again?

- **Current status of the FTAA negotiations: growing skepticism in the US and in Brazil**

- US “Competitive Liberalization”: 12 bilateral FTAs in a hub-and-spoke format
- Brazil: defensive position in services, government procurement, and intellectual property
- Portman and Amorim agreed to advance on Miami Agreement

- **Risk: “spaghetti bowl” effect**

- 67 agreements signed so far
- Diversions in trade, investment and employment
- Decreasing level of engagement

US-Brazil: Common Interests in Agriculture

- **Market Access**
 - Both countries are big winners of trade liberalization
 - Gains both at the WTO and the FTAA
- **Export Competition**
 - Elimination of export subsidies and trade monopolies
- **Sanitary Issues**
 - Increasing restrictions coming from China, Russia, etc.
 - Both countries are “victims” of the non-acceptance of regionalization
 - Examples: foot & mouth in Brazil; BSE in the US
- **Development of new technologies**
 - Biosafety Law approved in Brazil (GMOs)

US-Brazil: Divergences in Agriculture

- **Domestic Support:**

- Box and product-shifting: new blue box? product specific cappings?
- The “cotton case” spillovers: “dirty decoupling” of agricultural subsidies

- **“Sensitive” products**

- Sugar, orange juice, tobacco, peanuts, dairy
- But negotiating opportunities in ethanol and meats

- **Sanitary issues**

- US non-application of the regionalization principle to Brazilian meats and fruits